Niagara Structural Steel
Annual Report 1978

Niagara Structural Steel

Helping to build a strong future.

Steel Fabrication

Niagara Structural Steel (St. Catharines) Limited,
St. Catharines, Ontario

Niasco Steel Ltd.
Grimsby, Ontario

Steel Construction

Niagara Structural Steel (St. Catharines) Limited,
St. Catharines, Ontario

Steel Service Centres

Niagarasteel, St. Catharines, Ontario
Norsteel, Sept-Iles, Quebec

Steel Grinding Ball Mill

Norforge Inc., Sept-Iles, Quebec

Computer Drafting

Compu-Draft
St. Catharines, Ontario

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

Head Office
Smith & Petrie Streets, St. Catharines, Ontario.

Subsidiaries
Niagara Structural Steel (St. Catharines) Limited
Norsteel Limited
Northern Steel Co. Ltd.
Norforge Inc.
Niasco Steel Ltd.

Directors
B. A. Brown
V. E. Carr
M. E. Fedryna
M. J. Howe
R. A. Kennedy
H. W. Olch, Q.C.
H. P. Tomarin

Officers
H. P. Tomarin, Chairman of the Board and Chief Executive Officer
R. A. Kennedy, President and Chief Operating Officer
V. E. Carr, Vice-President Operations
M. E. Fedryna, Vice-President Material Services
S. O. Nicholls, Vice-President Finance
S. A. Tomarin, Assistant to the President
H. W. Olch, Q.C., Secretary
P. J. Kent, Assistant Secretary

Auditors
Ernst & Ernst, Toronto, Ontario.

Solicitors
Olch, Torgov, Cohen & Kent, Toronto, Ontario.

Registrar and Transfer Agent
The Canada Trust Company, Toronto, Ontario.

First Preference Shares, Series A
Listed - Toronto Stock Exchange

Report to the Shareholders

Results for fiscal 1978 indicate net sales of $28,309,398 as against $24,116,631 for fiscal 1977, an increase of 17%. At the same time, however, net income is reported at $583,558 down from $731,867 for fiscal 1977 and earnings per common share have accordingly been reduced to $1.14 from $1.44.

Lack of confidence in capital goods and construction markets in Canada and consequent deferments drove down prices and depressed profits in the steel fabrication industry during the past year. Fortunately for Niagara, construction for export contributed positively to the Company's returns and joined with the strengthening of steel service centre activities at St. Catharines to deliver satisfactory overall revenues.

Niagara's expansion into the manufacture of steel grinding balls for use by iron ore mills via subsidiary Norforge Inc. reached the stage of production in September, 1978, and in fact, that plant has already made its first deliveries. Management is highly optimistic that this division will shortly be in full and profitable operation.

Niagara's manufacturing facilities should continue in full production well into fiscal 1979. The computer drafting and structural steel detailing division is becoming steadily more productive in use for the Company and more attractive to major outside users in all branches of engineering and construction.

During the year Niagara acquired a small fabricating plant at Grimsby, Ontario, specializing in quality steel plate fabricating. This plant is nearby Niagara's main facility at St. Catharines. It is being operated by new subsidiary Niasco Steel Ltd. and is already showing early promise.

Niagara continues to investigate all possibilities for profitable expansion and for acquisitions which meet Niagara's established criteria.

During the coming year Niagara expects improved results from Sept-Iles, where steel service centre activity was interrupted by a long labour strike at the iron ore mines during 1978, and where the grinding ball mill should begin to deliver rewards for months of planning and heavy dollar investment. The divisions at St. Catharines and at Grimsby should continue to deliver acceptable volumes and results.

The Directors applaud all management and staff for their performance during the fiscal year under review.

ON BEHALF OF THE BOARD OF DIRECTORS

H. P. Tomarin

Chairman and
Chief Executive Officer

President and
Chief Operating Officer

St. Catharines, Ontario
November 15, 1978

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

ASSETS	August 31, 1978	1977
CURRENT ASSETS		
Cash	$ 10,648	$ 3,354
Accounts receivable less allowance for doubtful accounts of $342,224 (1977—$234,096)	6,184,761	5,555,753
Income taxes receivable	20,229	-0-
Incentive grant receivable — Notes A and G	347,021	-0-
Unbilled contract revenue	3,037,606	2,076,084
Inventories of steel, work in process and sundry materials at the lower of cost or net realizable value	7,003,575	5,859,136
Current portion of agreement of sale — Note C	11,335	10,610
Prepaid expenses	48,445	144,979
TOTAL CURRENT ASSETS	16,663,620	13,649,916
PROPERTY, PLANT AND EQUIPMENT — Notes A and B	6,843,642	4,740,329
Less — allowances for depreciation	1,873,016	1,563,718
	4,970,626	3,176,611
OTHER ASSETS		
Long term incentive grant receivable — Notes A and G	86,755	-0-
Agreement of sale less current portion — Note C	3,831	15,166
Incorporation and issue expenses less amortization — Note A	12,000	16,000
Plant start-up costs — Note A	233,580	-0-
	336,166	31,166
	$21,970,412	$16,857,693

See notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders
Niagara Structural Steel Company Limited

We have examined the consolidated balance sheet of Niagara Structural Steel Company Limited and subsidiary companies as at August 31, 1978 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at August 31, 1978 and the results of their operations and changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Chartered Accountants
October 27, 1978

LIABILITIES AND SHAREHOLDERS' EQUITY

	August 31 1978	1977
CURRENT LIABILITIES		
Bank loans — Note D	$ 5,158,424	$ 3,119,291
Accounts payable and accrued liabilities	5,158,601	3,786,644
Income taxes payable — Note E	1,721,148	1,659,156
Deferred contract revenue	543,711	1,112,875
Current portion of term bank loan — Note D	100,000	100,000
TOTAL CURRENT LIABILITIES	12,681,884	9,777,966
TERM BANK LOAN — Note D	3,100,000	1,400,000
DEFERRED INCOME TAXES — Note E	509,825	435,018
	16,291,709	11,612,984
SHAREHOLDERS' EQUITY		
Capital stock — Note F		
First preference shares with a par value of $30 per share, issuable in series: Authorized 44,979 shares; issued 13,954 (1977—14,979) Series A 6-1/2% cumulative shares redeemable at $31.50	418,620	449,370
Common shares without par value Authorized 1,000,000 shares; Issued 486,775 shares	1,041,637	1,041,637
Excess of net asset value of subsidiary over purchase price of shares at date of acquisition	193,897	193,897
Contributed surplus — Note F	30,899	24,139
Purchase fund for Series A first preference shares — Note F	14,596	26,586
Retained earnings	3,979,054	3,509,080
	5,678,703	5,244,709
	$21,970,412	$16,857,693

APPROVED ON BEHALF OF THE BOARD:

H. P. Tomarin, Director

R. A. Kennedy, Director

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended August 31 1978	1977
Net sales	$28,309,398	$24,116,631
Costs and expenses:		
Cost of sales and operating expenses	26,585,751	22,081,483
Depreciation	309,298	288,460
Interest on long-term debt	139,270	136,309
Interest on short-term borrowings	360,346	276,712
	27,394,665	22,782,964
INCOME BEFORE INCOME TAXES	914,733	1,333,667
Income taxes — Note E		
Current	249,500	490,868
Deferred	81,675	110,932
	331,175	601,800
NET INCOME	$ 583,558	$ 731,867
Earnings per common share	$ 1.14	$ 1.44

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended August 31 1978	1977
Balance at beginning of year	$3,509,080	$2,881,828
Add: Net income for year	583,558	731,867
Transfer from purchase fund for Series A preference shares — Note F	23,990	35,414
	4,116,628	3,649,109
Deduct: Dividends paid:		
Preference shares	28,219	30,674
Common shares	97,355	97,355
Transfer to purchase fund for Series A preference shares — Note F	12,000	12,000
	137,574	140,029
BALANCE AT END OF YEAR	$3,979,054	$3,509,080

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended August 31 1978	1977
SOURCE OF FUNDS		
Net income	$ 583,558	$ 731,867
Add items not requiring an outlay of working capital:		
Depreciation	309,298	288,460
Amortization of incorporation and issue expenses	4,000	4,000
Deferred income taxes	74,807	110,932
Loss on disposal of equipment	-0-	5,650
TOTAL FROM OPERATIONS	971,663	1,140,909
Proceeds from incentive grants	433,776	-0-
Proceeds from disposals of plant and equipment	-0-	4,150
Reduction in agreement of sale	11,335	10,617
Increase in term bank loan	1,800,000	1,500,000
	3,216,774	2,655,676
USE OF FUNDS		
Repayment of term bank loan	-0-	1,054,092
Current portion of term bank loan	100,000	100,000
Plant start-up costs	233,580	-0-
Long-term incentive grant receivable	86,755	-0-
Purchase of plant and equipment and improvement to buildings	2,537,089	545,711
Dividends paid — preference shares	28,219	30,674
— common shares	97,355	97,355
Cancellation of Series A preference shares	23,990	35,414
	3,106,988	1,863,246
INCREASE IN WORKING CAPITAL	$ 109,786	$ 792,430
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	$ 7,294	$ (2,274)
Accounts receivable	629,008	(526,264)
Income taxes receivable	20,229	-0-
Incentive grant receivable	347,021	-0-
Unbilled contract revenue	961,522	91,515
Inventories of steel, work in process and sundry materials	1,144,439	607,061
Current portion of agreement of sale	725	684
Prepaid expenses	(96,534)	22,811
INCREASE IN CURRENT ASSETS	3,013,704	193,533
Increase (decrease) in current liabilities:		
Bank advances	2,039,133	217,180
Accounts payable and accrued liabilities	1,371,957	838,195
Income taxes payable	61,992	460,759
Deferred contract revenue	(569,164)	(2,053,031)
Current portion of term bank loan	-0-	(62,000)
INCREASE (DECREASE) IN CURRENT LIABILITIES	2,903,918	(598,897)
INCREASE IN WORKING CAPITAL	$ 109,786	$ 792,430

NIAGARA STRUCTURAL STEEL COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1978

NOTE A — ACCOUNTING POLICIES

Incorporation: The Company is incorporated under the laws of Ontario and conducts its operation in Canada.

Principles of Consolidation: During the year, the Company formed a wholly-owned subsidiary, Niasco Steel Ltd. which is incorporated under the laws of Ontario and conducts its operations, principally steel fabrication, in Canada.

The accompanying financial statements include the accounts of Niagara Structural Steel Company Limited and its subsidiary companies, all of which are wholly-owned;

Niagara Structural Steel (St. Catharines) Limited
Niasco Steel Ltd.
Norsteel Limited (formerly Northern Steel (1972) Limited)
and its wholly-owned subsidiary Norforge Inc.
Northern Steel Co. Ltd.

All significant intercompany transactions have been eliminated on consolidation.

Basis of Accounting for Contract Profits: Profits from contracts are recorded based on estimates of the percentage-of-completion method of accounting. Losses are provided for in full when known.

Unbilled contract revenue, included with current assets, represents the excess of contract costs and profits recorded over contract billings on specific contracts. Deferred contract revenue, included with current liabilities, represents any excess of contract billings over contract costs and profits recorded on other contracts.

Property, Plant and Equipment: Property, plant and equipment owned by one of the Company's subsidiaries, Niagara Structural Steel (St. Catharines) Limited, were appraised in 1962 at a depreciated value of $1,439,547. The directors of that subsidiary company placed a value on these assets of $1,428,697 and the excess of $913,165 over depreciated net book value was recorded as part of the subsidiary's shareholder's equity.

Subsequent additions have been recorded at cost. All other property, plant and equipment have been stated at cost.

Major capital expenditures are capitalized, while costs of maintenance and repairs are charged to operations as incurred. Gains and losses on disposals of property, plant and equipment are recorded to operations as incurred.

Depreciation is provided on the straight-line method at rates previously determined by an independent firm of consulting engineers. These rates vary between 2.8% and 26.3% per annum.

Incorporation and Issue Expenses: These costs are being amortized at the rate of $4,000 per year.

Plant Start-Up Costs: These costs, incurred in connection with the Norforge production facility in Sept-Iles, Quebec, are being deferred until the commencement of commercial production at which time they will be amortized over a five year period based upon production. Commencement of commercial production was expected in September, 1978.

Incentive Grants: Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and is deducted from the cost of the related asset. Accordingly, depreciation charged to earnings is based on the net cost of the assets.

NOTE B — PROPERTY, PLANT AND EQUIPMENT

	August 31, 1978	1977
Land and land improvements	**$ 438,867**	$ 319,065
Buildings	**2,405,385**	1,657,590
Machinery and equipment	**3,999,390**	2,657,457
	6,843,642	4,634,112
Allowances for depreciation	**1,873,016**	1,563,718
	4,970,626	3,070,394
Construction in progress	**-0-**	106,217
	$4,970,626	$3,176,611

NOTE C — AGREEMENT OF SALE

This amount represents the principal balance due on the sale of a building by a subsidiary in 1970 pursuant to an agreement of sale, and is payable in monthly payments of $1,000 which includes principal and interest at 6-5/8% per annum. Principal payments of $11,335 (1977 — $10,610) are due within one year and are included with current assets.

NOTE D — BANK LOANS

Bank loans included with current liabilities are payable on demand and are secured by accounts receivable and inventories, and by a demand debenture of $1,250,000 consisting of a floating charge on all assets but subject in priority to debentures given to secure the term bank loans. Term bank loans of $3,200,000 consist of a term bank loan of $1,400,000 and a term bank loan of $1,800,000.

The principal amount of the term bank loan of $1,400,000 is repayable in sixteen consecutive semi-annual installments of $50,000 each commencing February 28, 1979, with the balance then outstanding due and payable on February 28, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at a rate not to exceed one percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by demand debentures of the Company and one of its subsidiaries for $2,500,000 constituting a first fixed and floating charge on all assets owned by the Company and Niagara Structural Steel (St. Catharines) Limited, subject to these companies giving security on accounts receivable and inventories, in priority to these debentures, to secure bank loans payable on demand.

The principal amount of the term bank loan of $1,800,000 is repayable in sixteen consecutive semi-annual installments of $78,750 each commencing November 29, 1979, with the balance then outstanding due and payable on November 29, 1987. Interest on the outstanding principal balance is payable monthly and is calculated at a rate of one and one-quarter percent over the prime lending rate existing from time to time of the Company's general bankers. This term bank loan is secured by a mortgage bond of $2,500,000 constituting a first fixed charge on all real estate owned by Norforge Inc. and a first floating charge on all other assets owned by Norforge Inc., subject to Norforge Inc. giving security on accounts receivable and inventories in priority to these debentures, to secure bank loans payable on demand. This term bank loan is guaranteed without limit, by Niagara Structural Steel (St. Catharines) Limited. At August 31, 1978 the prime lending rate of the Company's general bankers was 9-3/4%.

NOTE E — INCOME TAXES

Income taxes have been provided on the income shown in the financial statements. Taxable income is determined on a different basis and gives rise to both current and long-term deferred income taxes:

(a) Current deferred income taxes (included with income taxes payable) result from the use of a different method to record income from contracts for tax purposes.

(b) Long-term deferred income taxes result primarily from claiming depreciation for tax purposes on plant and equipment in excess of amounts recorded in the accounts.

The effective rate of tax for the year is reduced from that for the previous year, principally as a result of the Company receiving the 3% inventory allowance for full fiscal 1978 as compared with only five months for fiscal 1977.

NOTE F — CAPITAL STOCK

Purchase Fund For Series A First Preference Shares, and Contributed Surplus: In accordance with the provisions attached to Series A First Preference Shares a purchase fund to the maximum amount of $50,000 has been established for the purpose of acquiring Series A Preference Shares for cancellation. An amount of $12,000 has been transferred to the purchase fund at August 31, 1978. During the year 1,025 preference shares were purchased at a cost of $23,990 for cancellation. To date 4,575 preference shares with a par value of $137,250 have been purchased, at a cost of $106,351, and cancelled. The difference of $30,899 has been credited to contributed surplus.

Stock Options: The Company has reserved 45,000 common shares to enable it to grant options at $3.00 per share to such officers and full time key employees as the directors may determine from time to time. At August 31, 1978 no options had been granted.

NOTE G — GOVERNMENT GRANTS

Subsidiary Norforge Inc. has completed the construction of a plant and the purchase of land and equipment for the Norforge production facility in Sept-Iles, Quebec. A development incentive grant under the Regional Development Incentive Act of the Dominion of Canada has been authorized and Norforge Inc. is accordingly completing a final application for such grant in the amount of $433,776. This application is based on the approved capital costs of the facility and 80% of the grant is expected to be received following the date the facility is brought into commercial production, slated for September 1978; the remaining 20% within 30 months from that date.

Norforge Inc. has complied with all conditions attached to said incentive grant including the subordination to all creditors of a loan in the amount of $550,000 to Norforge Inc. by its parent company, subsidiary Norsteel Limited.

In addition, a commitment to underwrite to a maximum of $200,000 the interest costs of loans obtained to finance the costs of the production facility, has been obtained from the Industrial Development Corporation of Quebec. When received, proceeds will be credited against interest costs.

NOTE H — COMMITMENTS

The Companies have annual commitments amounting to approximately $310,000 (1977 — $315,000) for equipment rentals under leases of varying terms up to five years.

Commitments for the purchase of equipment at August 31, 1978 amounted to approximately $95,000.

The Companies have entered into several forward exchange contracts whereby they are committed to sell to their general bankers approximately U.S. $5,000,000 between September 1, 1978 and May 31, 1980 at premium exchange rates varying between 12.01% and 13.47%.

NOTE I — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

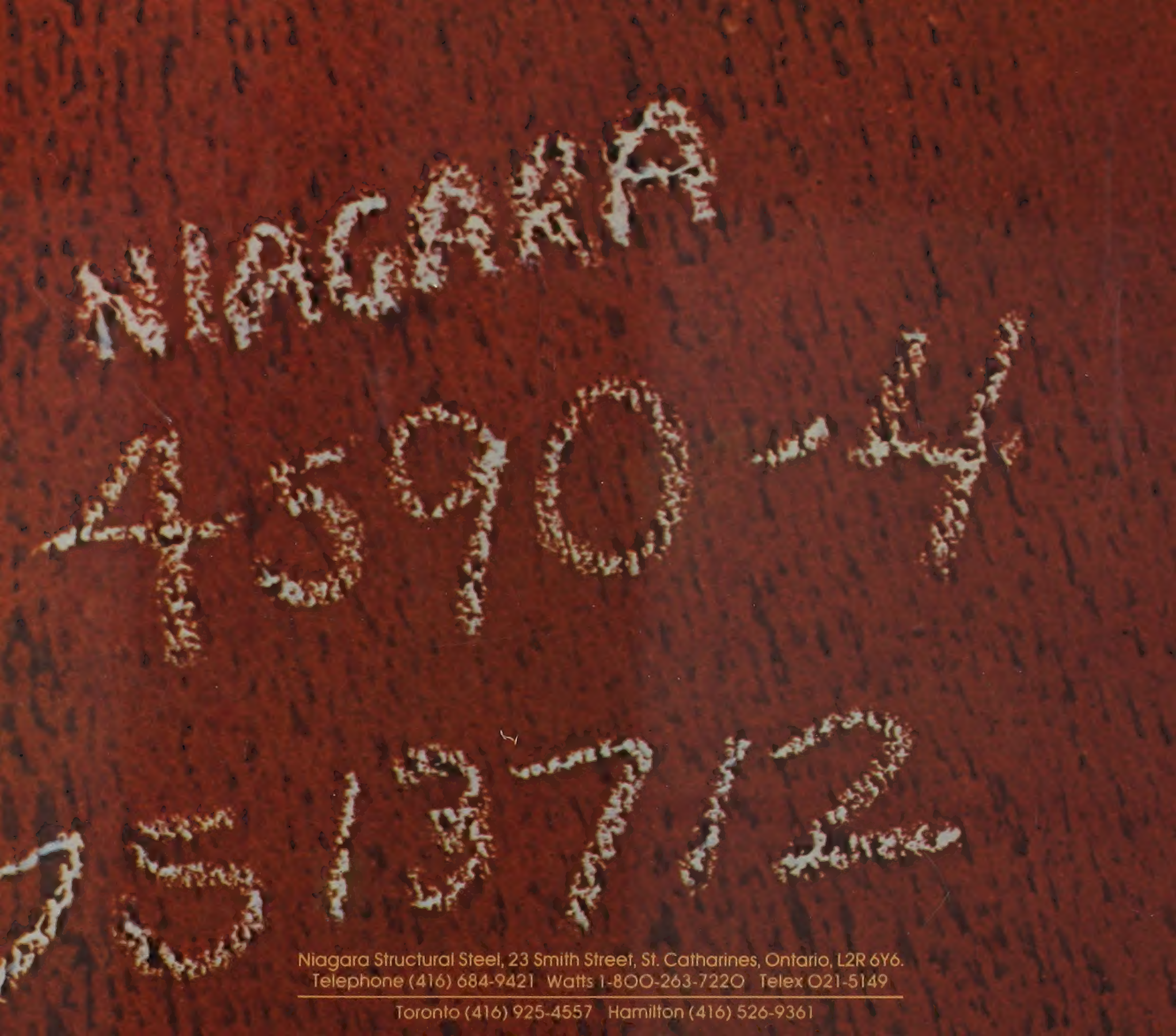
The remuneration of directors and senior officers (as defined by The Business Corporations Act of Ontario) amounted to $304,095 (1977 — $321,773).

NOTE J — PENSION PLANS

Contributions to pension plans covering most employees were charged to operations, including amortization of past service costs, which at August 31, 1978 amounted to approximately $427,000. These past service costs are being amortized over periods from 10 to 15 years.

NOTE K — ANTI-INFLATION LEGISLATION

The Companies are subject to the Anti-Inflation Act and Regulations and accordingly restrictions have been placed on compensation increases, dividend payments and prices and profits relating to certain of their operations subsequent to October 14, 1975. At August 31, 1978 the Companies are in compliance with the Act and have no material unrecorded liability at that date.



Niagara Structural Steel, 23 Smith Street, St. Catharines, Ontario, L2R 6Y6.
Telephone (416) 684-9421 Watts 1-800-263-7220 Telex 021-5149

Toronto (416) 925-4557 Hamilton (416) 526-9361